

Press Statement

Fuel Price Adjustment

Date of Issue: Monday, 7th August 2017

In line with the Cost-Plus Model that is currently used to set fuel prices, the Energy Regulation Board (ERB) has reviewed the current wholesale and retail fuel prices based on the most recent importation of petroleum feedstock and finished petroleum products.

The decision to review prices is also in line with the policy guidance that fuel price adjustments will be made periodically as fundamentals that determine them change. The Government of the Republic of Zambia imports a commingled petroleum feedstock typically consisting of: petroleum feedstock (41%); condensate/naphtha (13%); and gasoil (diesel) (46%). In turn, the ERB determines the wholesale and pump prices.

Specifically, in July 2017 Government imported 105,000.00 metric tonnes (MT) of commingled feedstock. This price adjustment takes into account refined petroleum products that have been imported since January 2017. Fundamentally, the cost of this importation has to be recovered in full.

Fuel prices in Zambia are largely determined by two factors: international oil prices and the exchange rate of the Zambian Kwacha against the United States Dollar. The ERB uses the Cost-Plus Pricing Model (CPM) to review fuel prices. However, the ERB effects a change to current prices of petroleum products if the proposed change in the wholesale prices, on average, is greater than the set 2.5% threshold.

Notably, the last fuel price adjustment was effected in January 2017. In between, the Government has made two importations of both petroleum feedstock and finished petroleum products. However, there was no price adjustment effected on those importations as they were both below the trigger threshold of 2.5%.

Between the last adjustment and July 2017, there has been a gradual reduction in the price of petroleum products on the international oil market. This has been on account of

excess oil supply and fairly high oil inventories. For example, the price of Murban Crude Oil which is mostly used in Zambia moved from US\$56.60 per barrel in March to US\$47.86 per barrel in June 2017.

With regard to the exchange rate, there has been a sustained appreciation of the Kwacha since the last adjustment. For example, in January 2017 the Kwacha traded at K9.60 per US\$ compared to just about K9.00 per US\$ by mid-year of 2017. The strengthening of the Kwacha was largely influenced by increases in the international copper prices, companies converting foreign exchange into the local currency in order to meet their tax obligations and inflows from offshore investors for the Government bond auctioning.

Based on the above, the ERB has adjusted the wholesale and retail prices as follows:

Table (a): Approved August 2017 Wholesale Prices

PRODUCT	Kwacha Prices ZMW/M ³ OR ZMW/MT			% CHANGE
	CURRENT	NEW	ABSOLUTE VARIANCE	
PETROL	7,254.65	6,542.49	(712.16)	(9.82)
DIESEL	7,079.05	6,356.56	(722.49)	(10.21)
KEROSENE	5,455.60	5,150.73	(304.87)	(5.59)
JET A1	5,525.33	5,216.57	(308.76)	(5.59)
HFO	2,359.11	2,227.28	(131.83)	(5.59)
LPG	2,407.64	2,273.10	(134.54)	(5.59)
BITUMEN	3,007.93	2,889.34	(118.59)	(3.94)
LSG	9,044.93	8,316.02	(728.91)	(8.06)

Table (b): Approved Pump Prices August 2017

PRODUCT	NATIONAL UNIFORM PUMP PRICES K/Litre			
	CURRENT	NEW	ABSOLUTE VARIANCE	% CHANGE
PETROL	12.50	11.67	(0.83)	(6.64)
DIESEL	10.72	9.87	(0.85)	(7.93)
KEROSENE	6.81	6.50	(0.31)	(4.55)
LSG	13.01	12.16	(0.85)	(6.53)

In view of the foregoing, the combined effect of the import costs for petroleum feedstock and finished petroleum products, if wholesale and pump prices are retained

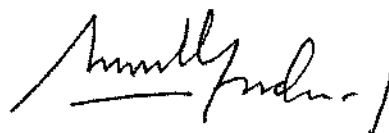
at current levels shows that there would be marginal gains. This therefore implies that wholesale and pump prices would need to be adjusted slightly downwards.

As mentioned before ERB will continue to allow for price stability, and in keeping with the application of the Cost Plus Model, price adjustments can only be implemented if wholesale prices rose or reduced by more than 2.5%.

In summary the prices at the retail level per litre shall be as follows:

- Petrol – **K11.67**;
- Diesel – **K9.87**;
- Kerosene – **K6.50**; and
- Low Sulphur Gas (Diesel) – **K12.16**

This price reduction is effective at midnight.



BY ORDER OF THE BOARD

ENERGY REGULATION BOARD